

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ.*

DATE: July 14, 2010

RE: Revised Memorandum on the MGM Grand Casino Temporary
Casino Site Purchase

Your Honorable Body, attached is a revised memo on the resolution authorizing to purchase the MGM Grand Casino temporary casino site for a new Detroit Public Safety Headquarters.

I embellish the cost/benefit analysis section of the report by incorporating the impact of the loss property taxes if the site becomes tax-exempt property if a new public safety headquarters is constructed at the site.

Attachment

cc: Council Divisions
Auditor General's Office
Saul Green, Deputy Mayor
Norman White, Chief Financial Officer
Beth Duncombe, Detroit Building Authority Director
Thomas Lijana, Group Executive-Finance
Pamela Scales, Budget Director
Kamau Marable, Mayor's Office

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Revised

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: July 14, 2010

RE: Resolution Authorizing to Purchase the MGM Grand Casino
Temporary Casino Site for a New Detroit Public Safety
Headquarters (**Recommend Approval**)

The above referenced resolution was sent to tomorrow's Formal Session from the Internal Operations committee without recommendation.

The Fiscal Analysis Division submitted numerous questions on this proposed project, and I thank the Administration for responses to our questions.

My report and recommendation on the project follow.

Project Description

The Administration desires acquiring the MGM Grand Casino temporary casino building for a new Detroit Public Safety Headquarters. \$6.325 million is the purchase price for the \$400,000 s.f. building, an adjoining 4-level parking deck and surface parking lot, and a 7-story parking structure. In addition, approximately \$1 million would be spent on property tax and utility proration. Furthermore, another \$100,000 in financing cost would be spent, if a land contract deal were entered into to help finance the acquisition. As a result, total acquisition cost approximates \$7.8 million.

The building would become the new headquarters for both the Detroit Police and Fire departments, and would also include a state of the art property room and crime lab. Construction cost for the headquarters approximate \$36.76 million and \$18.74 million for a new crime lab, total project cost at \$55.5 million.

The City would seek financing from the State, potentially through a leasing arrangement, to reimburse the City for the cost of the crime lab, if the lab becomes a State facility. Unfortunately, there is nothing in writing from the State supporting a State owned crime lab housed in the new headquarters. The

Administration has indicated that the space for a crime lab would not be built out until discussions with the State are finalized and codified.

According to the Smithgroup, it would cost up to \$151 million to build a new public safety headquarters, with a state of the art property room and crime lab.

1300 Beaubien (current Police headquarters) and 250 W. Larned (current Fire headquarters) cannot be retrofitted into a 21st Century headquarters because of small floor plates and limited ceiling heights. No attempts were made to estimate the cost of retrofitting these properties because of the limitations. The Administration expresses that potential developers may be interested in the 1300 Beaubien and 250 W. Larned properties.

The Administration assumes no environmental cleanup is expected, since the site is suitable for commercial use, even though metal level exceed MDEQ requirements; but contamination does not exceed commercial cleanup criteria. The Administration provided your Honorable Body a CD-ROM disk last week containing the environmental supporting this assessment.

Source of Financing for the Project

The Administration proposes to fund the initial acquisition of the property under a land contract financing arrangement with MGM Grand Casino. The land contract financing is authorized under Act 99 and is a limited tax obligation of the City (i.e., funded through the general fund). The City would later issue unlimited tax bonds (funded through property taxes) to pay off the land contract and fund improvements to the project site.

The City cannot have Act 99 outstanding contracts exceeding 1-1/4% of taxable assessed value of the City, or \$110.3 million. Currently, the City has used up about \$25 million of this maximum amount, so there is clearly sufficient room to do the land contract financing.

I understand that a combined \$16 million in bond free balances relative to Police and Fire capital projects may be available for the acquisition costs. Using these funds rather than a land contract financing arrangement could save the City some costs. The Administration will investigate if the any of the bond free balances could be used for this purpose in lieu of the land contract arrangement. If so, any bond accounts would be reimbursed from the unlimited tax bond proceeds.

The Administration proposes to fund the construction with proceeds from the issuance of \$100 million in Distributable State Aid Second Lien Unlimited Tax General Obligation Bonds. The bonds would be subordinate to the \$250 million in Distributable State Aid Limited Tax General Obligation Bonds sold in March 2010. Both bonds would be supported by distributable state aid, or state revenue

sharing; and backed by the full faith and credit of the City. The state revenue sharing pledge makes the bonds marketable for potential investors, given the City's financial straits.

Council should note that the Administration would not issue the bonds until after the acquisition of the project site, if you approve.

As the Council knows, there is a separate resolution for the bond sale before you. The resolution resides in the Budget, Finance and Audit committee. I will have a separate memorandum regarding the bond sale. In general, however, I do not have a major issue with the proposed bond sale, other than the fact that its approval would further restrict state revenue sharing to some degree.

Cost/Benefit Analysis

It currently cost the City \$1,360,900 annually to operate (steam heating, public lighting, water, repairs, janitorial and maintenance) 1300 Beaubien (current Police Headquarters) and 250 W. Larned (current Fire Headquarters). In addition, the City pays about \$1.6 million in annual lease cost to house Police operations in six different locations. All six locations would transfer to the new public safety headquarters, if Council approves this project.

As it stands currently, the City spends approximately \$3 million to operate the current headquarter locations and lease space for six additional Police operations. In comparison, according to estimates from the Smithgroup, it would cost the City approximately \$1.7 million to annually operate the new public safety headquarters.

In addition, the old MGM Grand Casino property would become tax-exempt property if purchased by the City and used as a new public safety headquarters. Currently, MGM Grand Casino pays approximately \$1.9 million in property taxes for the site. Approximately 40% of the property taxes, or roughly \$760,000, go to the City of Detroit.

So, if your Honorable Body approves the acquisition of the site and construction of a new public safety headquarters, the City would receive a net benefit of \$540,000 operating the new facility versus the cost of operating the existing headquarter sites. The net benefit of \$540,000 is computed by taking the \$3 million to operate the current Police and Fire sites, and auxiliary offices, less the \$1.7 million estimated to operate the new facility less the City's loss of property taxes of \$760,000.

Additionally, the new public safety headquarters project is expected to generate 300 construction jobs, paying at \$50,000 annually for two years. These jobs would generate up to \$600,000 in income tax revenue for the City. In addition, if 80 scientists were hired for the crime lab, at \$100,000 salary apiece, \$120,000

would be generated in income taxes, and \$1.8 million in income taxes over a 15-year period.

Recommendation

The purchase of the MGM Grand Casino temporary casino site could allow for a new public safety headquarters for Police and Fire, including a state of the art crime lab, on-site evidence storage, indoor parking for police and fire vehicles, and office space for various fire and law enforcement divisions. The Lodge freeway logistically locates the facility.

Total acquisition and construction cost approximate \$63 million, significantly lower than the \$151 million cost to build anew. The new project would create jobs and tax revenues.

I recommend approval of the new public safety headquarters project.

cc: Council Divisions
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